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MARCH 1989
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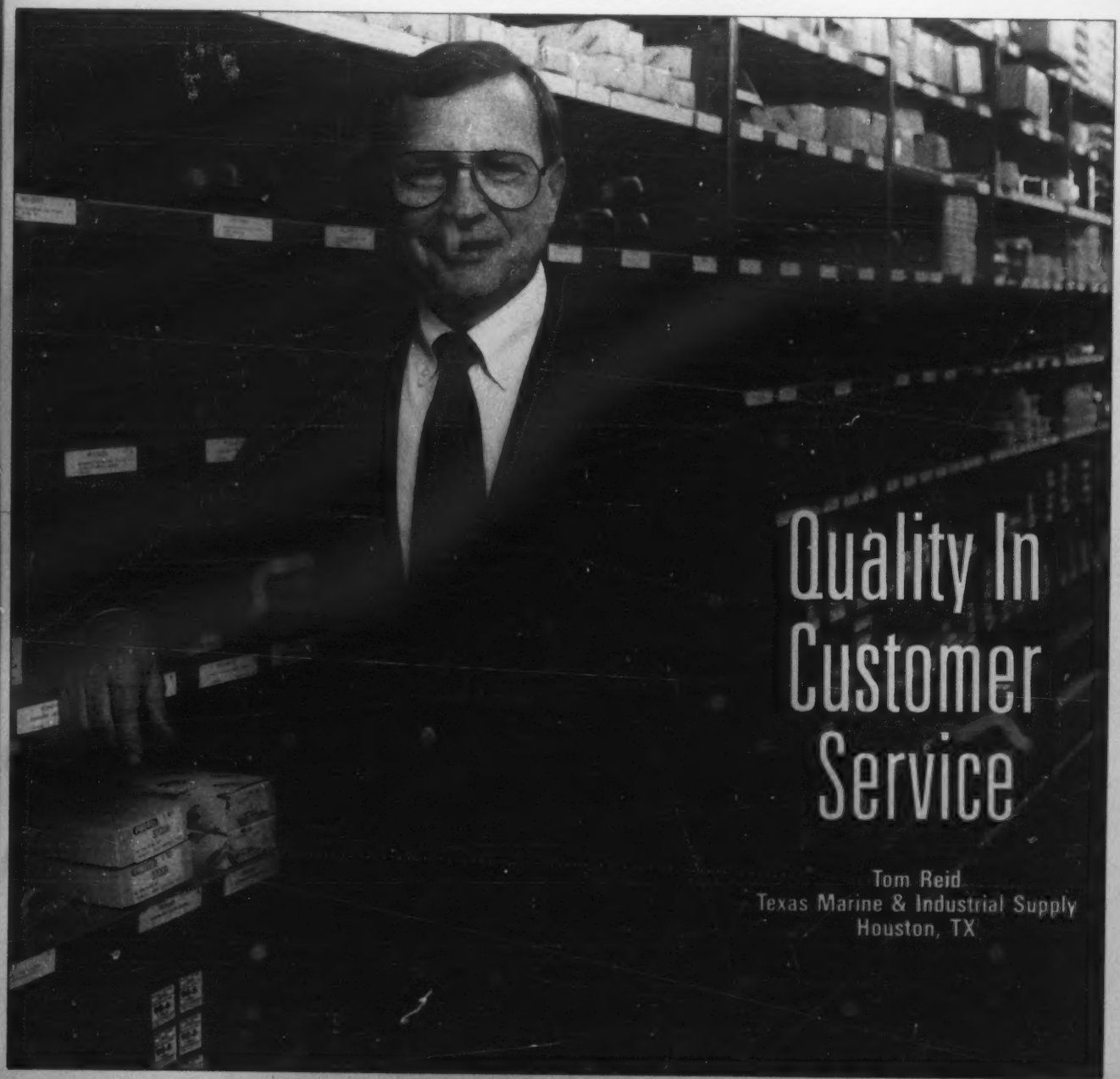
Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

SPECIAL:

Hose Buyer's Guide



Quality In Customer Service

Tom Reid
Texas Marine & Industrial Supply
Houston, TX

Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 78, NO. 3 MARCH 1989 A CAHNERS PUBLICATION

Texas Marine & Industrial Supply's Tom Reid tells how his company strives for zero defects.

cover photography by Jerry Jones

30 Delivering quality customer service

In order to provide the service levels end users demand today, a company has to undergo a complete change in corporate culture. And that means involving every employee in the quality process says Tom Reid, vice president of Texas Marine & Industrial Supply.

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Despite selling in a depressed section of the country, Pittsburgh distributor Gooding, Lewis, Goetz & Co. has prospered. Here are the company's secrets for success.

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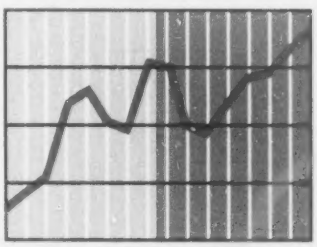

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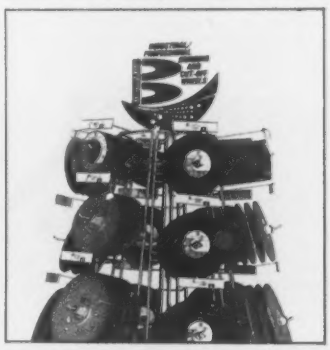

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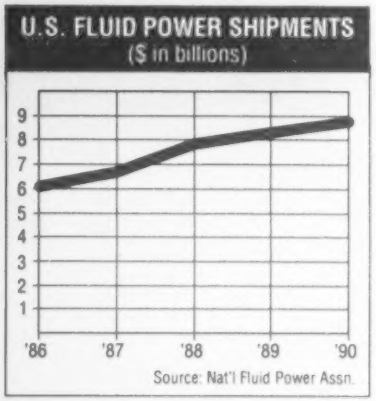
gone. This change, he said, is due largely to better management of monetary policy and the fact that imports have helped control inflation. But as often is the case with economics, Evans said these positive trends also have negative sides.

"While the flow of imports has had an impact of controlling the rate of inflation, the fact is that we are not as isolated as we used to be, and can be hurt by world economic downturns more than we have in the past," Evans said. "But as long as everything remains on an even keel, I see steady growth for 1989 and into the future." □



The recent brisk expansion in fluid power shipments is expected to slow during the next two years.

Distributors say DOC belts ruling has little initial impact

WASHINGTON, DC—Most distributors interviewed by *ID* maintained that the Dept. of Commerce's (DOC's) ruling in the Gates antidumping case has yet to have significant impact on their businesses.

The DOC's preliminary ruling, based on a lawsuit filed June 30, 1988 by the Gates Rubber Co., found that eight foreign countries violated both U.S. and international law by selling industrial belts at less than fair value.

At press time, indications from distributors and foreign producers affected were that, unlike the Torrington case (see *ID*: Jan. '89, p.9), which involved immediate price increases, most of the foreign belt producers were holding back on price increases until the DOC's final ruling next month. Some of the foreign companies, such as Pirelli Industrial Products Corp., went as far as to challenge the DOC's margins, claiming they were "unrealistic."

Besides Italy, the countries named in the suit were West Germany, Israel, Japan, Korea, Singapore, Taiwan, and the United Kingdom. The products covered by the lawsuit include industrial power transmission belts such as V-belts and synchronous belts, as well as round and flat

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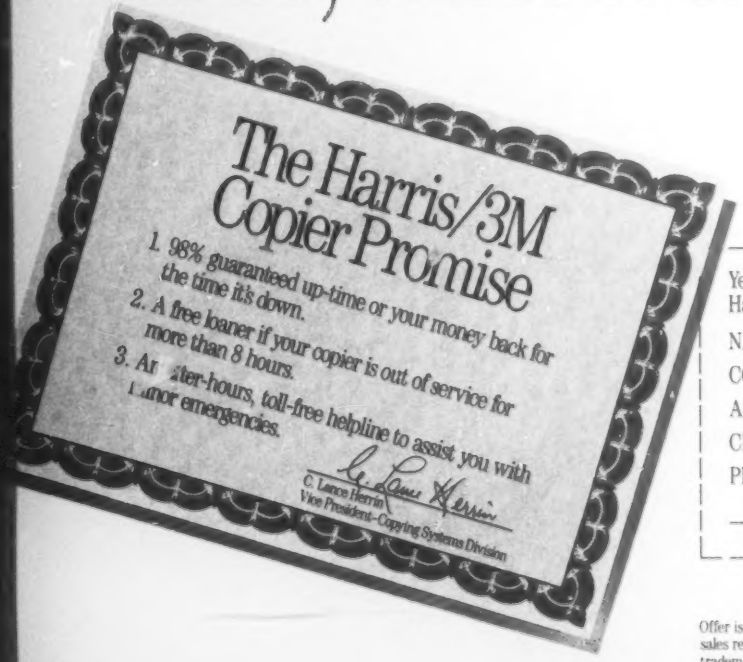
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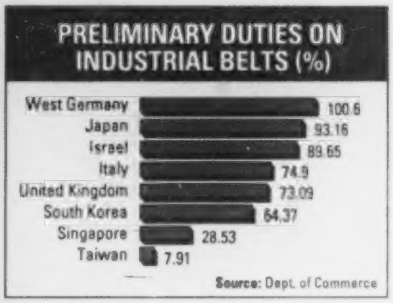
belts. It excludes conveyor, automotive, and front engine drive belts.

As is usual with anti-dumping cases, the DOC set preliminary dumping margins. The margins ranged from a high of 100.60% for the Federal Republic of Germany, to a low of 7.91% for Taiwan (see chart).



Duties paid to the U.S. government by importers are based on margins set by the DOC.

The duties are currently being held in escrow, pending the DOC's final determination in April. If the DOC's final ruling is affirmative, the International Trade Commission (ITC) has 45 days to determine whether the dumping situation "materially injured" the U.S. belting industry. Following that, the importers will either be reimbursed or pay the difference if the margins change.

DISTRIBUTORS' VIEWS

Ralph C. Bolton, vice president of sales for Birmingham, AL-based Motion Industries, a major distributor of Gates belts, said that while Motion may pick up some additional market share, gains are not expected to be dramatic. Bolton maintained that the Torrington case was markedly more significant. He cited two main reasons for the difference.

First, Bolton acknowledged that the 8 countries in the Gates case accounted for about $50 million in sales during 1987, roughly one-tenth of the total for imported anti-friction bearings in 1987. Second, because there are more imports of anti-friction bearings into the U.S., there are clearly more distributors that stock and sell foreign bearings as opposed to domestic, he added.

"The fact is that there is greater opportunity for distributors to carry U.S. industrial belt lines as opposed to anti-friction bearings," Bolton said. "Most distributors had little choice over the years but to carry foreign-produced bearings."

One Cincinnati-based distributor of foreign industrial V-belts concurred with Bolton. Asking not to be quoted directly, the distributor said that unlike the bearings situation, U.S. manufacturers have been able to compete on a quality and price basis with the foreign V-belt producers. This made it less urgent for distributors to carry foreign-made lines, he noted.

Although many distributors were largely unphased by the case, Gates was clearly upbeat. Lew Keim, vice president of corporate public relations for Gates, maintained that the DOC action "supports our original

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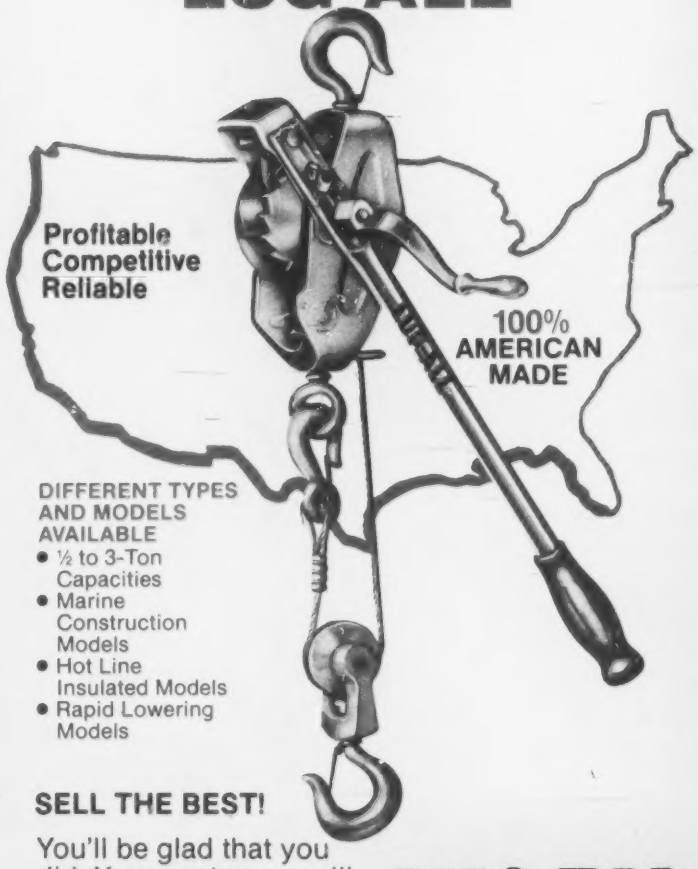

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contention that foreign-made industrial belts have been sold at below fair market value. The government intervention seeks to eliminate the artificial advantage, not foreign competition altogether."

Gates has maintained throughout that U.S. industry has been hurt by the illegal dumping. In its original filing, the company reported that the 8 countries named in the lawsuit accounted for an estimated 13.2% of U.S. consumption in 1987, up from 8.7% in 1984. These imports were valued at $27 million in 1984 and jumped to $52.5 million in 1987. □

I.D.A. southern convention focuses on improving ROI

NASHVILLE, TN—More than 1,800 distributors and manufacturers met for the Industrial Distribution Assn.'s (I.D.A.'s) Southern Convention to focus on improving return on investment (ROI).

The meeting, which ran from Jan. 21 to 23, included three seminars and a general session presentation geared specifically toward helping distributors upgrade investment return. ROI is defined as after-tax profits as a percentage of net worth.

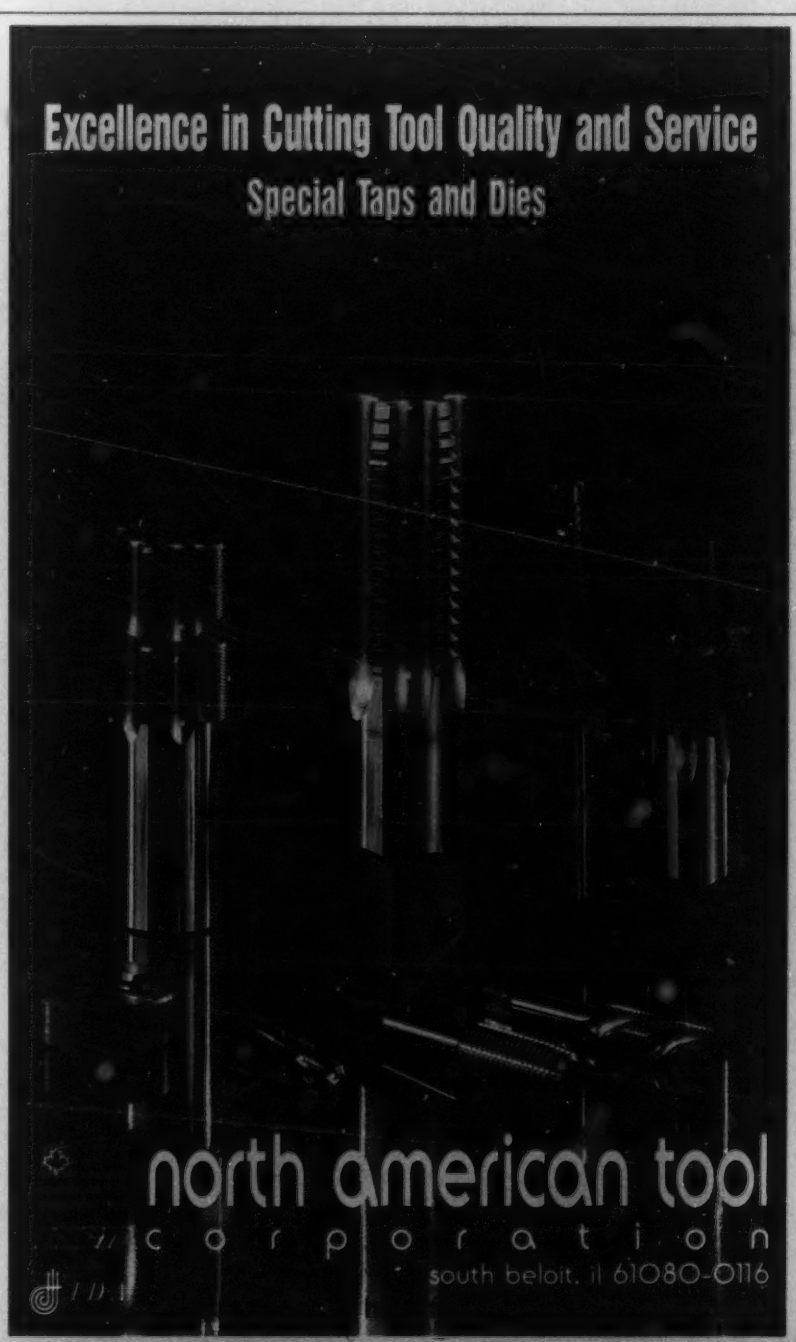
In his general session presentation, I.D.A. Co-president Tom Reid said that I.D.A. members achieve about a 6.4% ROI, well below that attained by other segments of distribution. He pointed out that segments such as hose and fluid power consistently realize ROIs well in excess of 10%.

Reid said that increasing sales and gross margins, along with squeezing expenses, will not solve general line distribution's ROI problems. The I.D.A. co-president said that for members to start improving their return, they must realize that they are spending 20 to 25% of their time correcting mistakes. "We have the low 6.4% ROI because we haven't changed the way we do things."

He then related the story of his company's push toward quality improvement and the goal of zero defects. Reid, who is vice-president of Houston-based Texas Marine & Industrial Supply, said that his company has adapted quality principles as taught by W. Edwards Deming, Philip Crosby and others (see feature story, p.30). Two of the more important tenets of the quality process at Texas Marine are employee involvement and the use of statistical process control techniques to measure a company's operations.

"With quality, we can increase sales, decrease costs and have yet another value-added service we can sell," Reid maintained. "While we have to use all the tools at our disposal, we have to recognize that the quality process can play a significant role in improving ROI." □

[*continued on pg. 20*]



Circle No. 15

BUSINESS REPORT

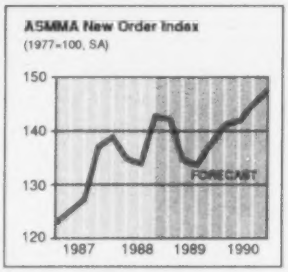
BY KRIS BLEDOWSKI

Economy to slow in 1989

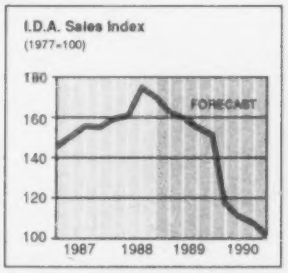
But prospects for industrial distributors are still good

As the U.S. economy's growth rate slows this year to a projected rate of 2.2%, industrial distributors will be faced with a low-growth environment. However, the market for industrial products should continue to expand, albeit at a slower pace than in 1988. Demand will weaken in most end-markets, but overall sales of machinery components will still be higher in 1989 than they were in 1988. The following shows how major ID markets shape up this year.

The housing market is slowly coming out of the slump of 1986-1987. Interest rates should rise somewhat early in 1989 and should moderate later on. By the end of this year, total housing starts are expected to be 1.46 million units, up 0.4% from an estimated 10% loss in 1988. Preliminary estimates call for 1.58 million new starts in 1990. Industrial construction spending has been on the rise since early in 1987, and it is expected to grow 10.6% in 1989.



Data source: ASMMA
Forecast source: Cahners Economics



Data source: Industrial Distribution Assn.
Forecast source: Cahners Economics

Retail sales are forecast to gain 4.0% in 1989 but when adjusted for inflation, the real rise will be slower. The Conference Board's consumer confidence index, which usually tracks retail sales, is expected to drop 1.6% next year. However, the period of reduced consumer confidence will be very brief. Consumer confidence is an important indicator of durable goods sales.

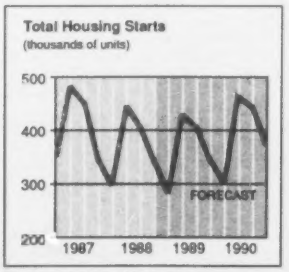
The Cahners' exclusive index of consumer packaged goods industrial products will grow throughout much of 1989, but will finish the year 0.9% lower than in 1988. Preliminary indicators point to a 1.5% increase in the output of packaged goods in 1990.

The weakest end-market for industrial products will be transportation. Total domestic auto sales are expected to decline 2.4%, mainly because of lower consumer confidence and rising interest rates. Production of ships and boats will drop by 1.5% and aircraft will register a meager 0.1% gain.

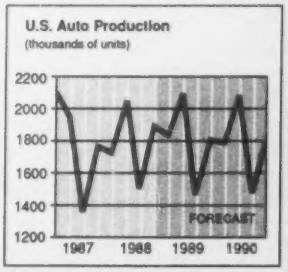
The electronics industry is slowing down but will sustain positive growth throughout this mild economic downturn. The electronics composite forecast predicts 2.6% growth this year. The computer market is expected to expand 2.3% in 1989, communications equipment will grow 4.4%, and components will dip 0.2%. □

Data source: Federal Reserve Board
Forecast source: Cahners Economics

Data source: The Conference Board
Forecast source: Cahners Economics



Data source: Dept. of Commerce
Forecast source: Cahners Economics



Data source: Dept. of Commerce
Forecast source: Cahners Economics

	SALES		INVENTORIES				
	Average % Change		Increase		No Change	Decrease	
	Dec. '88 vs. Nov. '88	Dec. '88 vs. Dec. '87	Percent Responding	Average Increase	Percent Responding	Percent Responding	Average Decrease
EAST	-26.0	2.2	40.0	4.3	50.0	10.0	1.0
SOUTH	1.2	-3.0	26.7	3.3	46.7	26.7	2.0
CENTRAL	-4.0	3.7	32.4	5.4	35.3	32.4	4.2
WEST	-2.0	10.6	23.1	4.2	69.2	7.7	6.0
TOTAL	-6.9	3.3	31.7	4.6	46.3	22.0	3.6

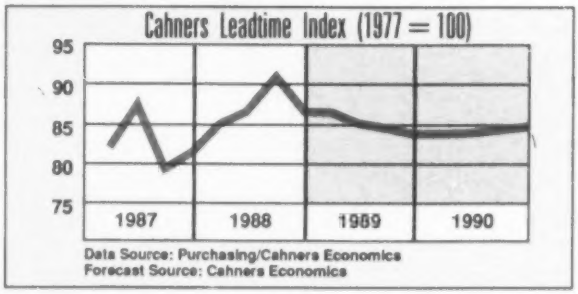
SUPPLY OUTLOOK

BY KRIS BLEDOWSKI

Fabricated metals prosper

But growth will slow in 1989

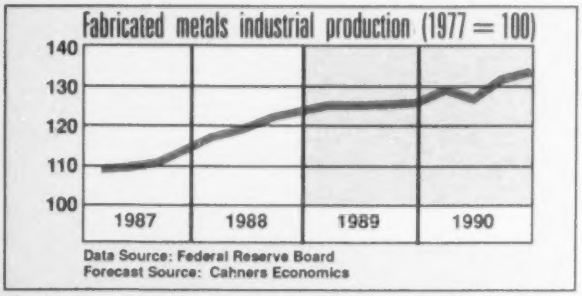
Fabricated metals production rose a substantial 8.9% last year after meager growth of 2.7% in 1987. The reason lies in a high demand for fasteners, stampings and forgings which grew over 10%. Automobile and aerospace industries accounted for the bulk of stampings and forgings orders. In the subcategory of impression die forgings, orders totalled a record $3 billion in 1988, about 18% higher than in the previous year. Sales of structural metal products also showed strength. Output of this category advanced 6% in 1988, while hardware tools and cutlery output grew to about 7%.



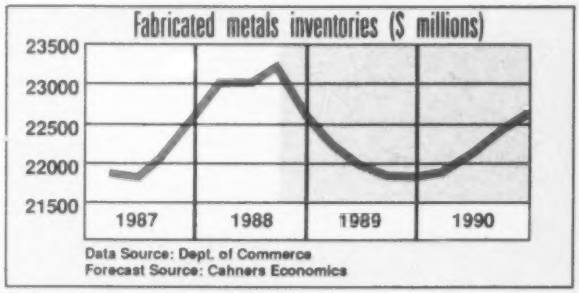
The metal containers industry has been stagnating for the past several years with output hovering around the 1977 level. However, last year it grew about 8%. For 1989, we forecast that production will top 7%.

Inventories of fabricated metals have been very stable since the beginning of the current expansion in 1982. Between that year and the end of 1988, the value of inventories fluctuated between $21 and $22 billion, nearing $23 billion in the last months of 1988. With the output expansion of several percentage points during that period, the relative ratio of unsold goods to production actually decreased. With increased capacity and no recession in 1989, we forecast inventory to fall a few percentage points to about $22 billion.

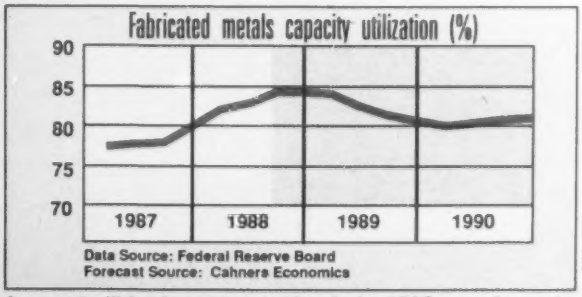
Capacity utilization grew steadily in 1988, from a low of 81.6% in January to a high of over 84% by the end of the year. This has sent prices of fabricated metals soaring. The annual increase of 8.7% was more than 3 times the increase of finished goods prices and twice as high as inflation for packaged goods. With new investment coming on line, last year's bottlenecks will be avoided, and we forecast that 1989 inflation for fabricated metals will be about 3.5%. □



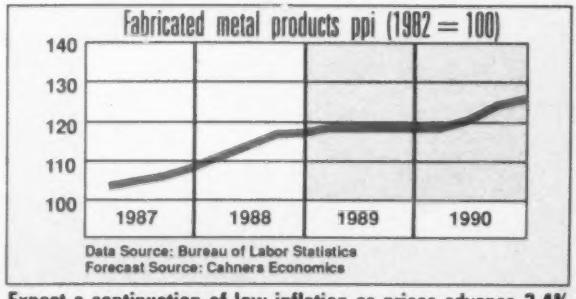
Production of fabricated metals will increase 3.8%, a higher growth rate than that for the economy as a whole.



Reflecting increased production capacity, inventories will fall 4.4% to an average of $22 billion by the end of 1989.



As new facilities become operational, the 1989 rate of capacity utilization will drop 1.6% compared with last year.

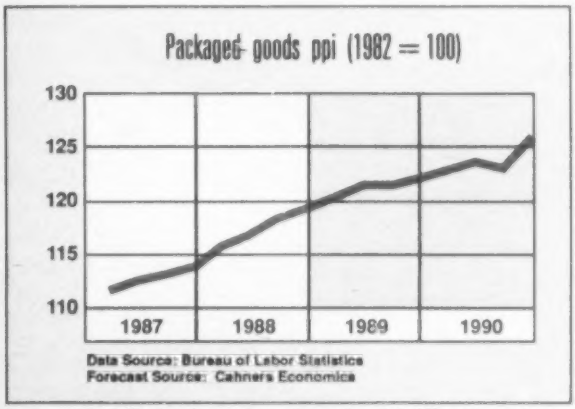


Expect a continuation of low inflation as prices advance 3.4% this year and another 3.1% in 1990.

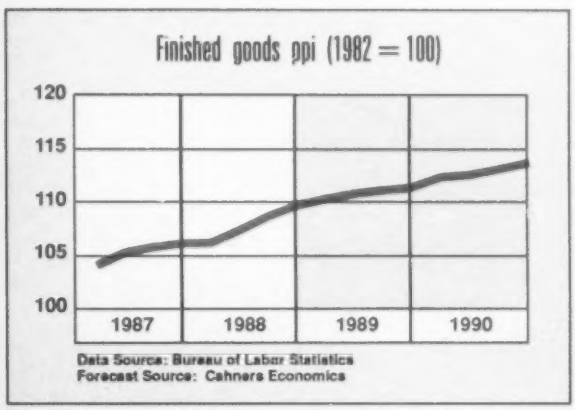
SUPPLY OUTLOOK

Moderate producer price increases expected

The producer price index for finished goods rose 0.4% from November to December. This increase followed a 0.3% gain in November and no change during the previous month. The intermediate goods index advanced 0.5% in December, the same as in the preceding month. After a 3.1% drop in November, the crude goods index rebounded with a 3.5% climb in December. For the year, the index was up a modest 2.5% when compared with 1987's performance. Packaged goods prices rose 0.2% in December, the same increase as in November. For 1988 the index was 4.2% higher than in 1987.



Last year's inflation in packaged goods of 4.2% will moderate to 3.2% this year and 2.1% in 1990.



The PPI's advance of 2.7% in 1989 will be roughly equivalent to the rate recorded in 1988.

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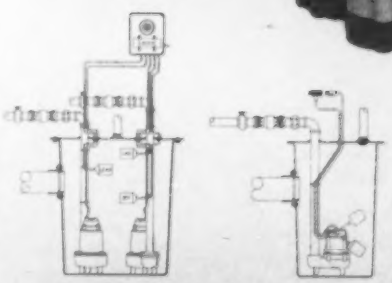

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